

Blue Ocean Strategy

Ajay Mohan Goel

ajaymgoel@gmail.com

A wake up Call!!!!

- Between 1975 and 1995, 60 percent of Fortune 500 companies were replaced on the list.
 - Markets are opening
 - Competitors are agile
 - Competitors can pick and choose where to compete
- In 10 years time will your market place still be populated by the same dominant industry players????

The Lessons we all need to learn

- Industries and companies continuously rise and fall.
- Therefore, there are no permanently great industries or companies
- Instead, there are strategic moves that propel companies and continuously create new industries.
- Example: Nokia
 - 137 year old company, leading mobile manufacturer with USD 31 Billion in sales in 130 countries
 - Has practiced renewal for a lifetime, starting out making paper, then boots, rain coats, hunting rifles, consumer electronics and now mobile phones.

Staying at the top is not about having a great new technology to deploy

- In strategy formation, innovation is often equated with technology requiring sizable development and investment.
 - In contrast, Value Innovation aims to substantially raise the value proposition towards customers (Hence “Innovation in Value”).
- The question is: “How can we best identify and serve their overall needs and offer them unparalleled value?”
- Example: IBM
 - Between 1991-1993, \$16B in losses
 - In ‘93 first non-IT CEO switches co. focus from ‘technology driven’ to ‘customer solutions driven’, creating new “Global Services Group”
 - By 2001 the Global Services Group represents \$35B of \$86B in total sales.

When should a company consider using value innovation

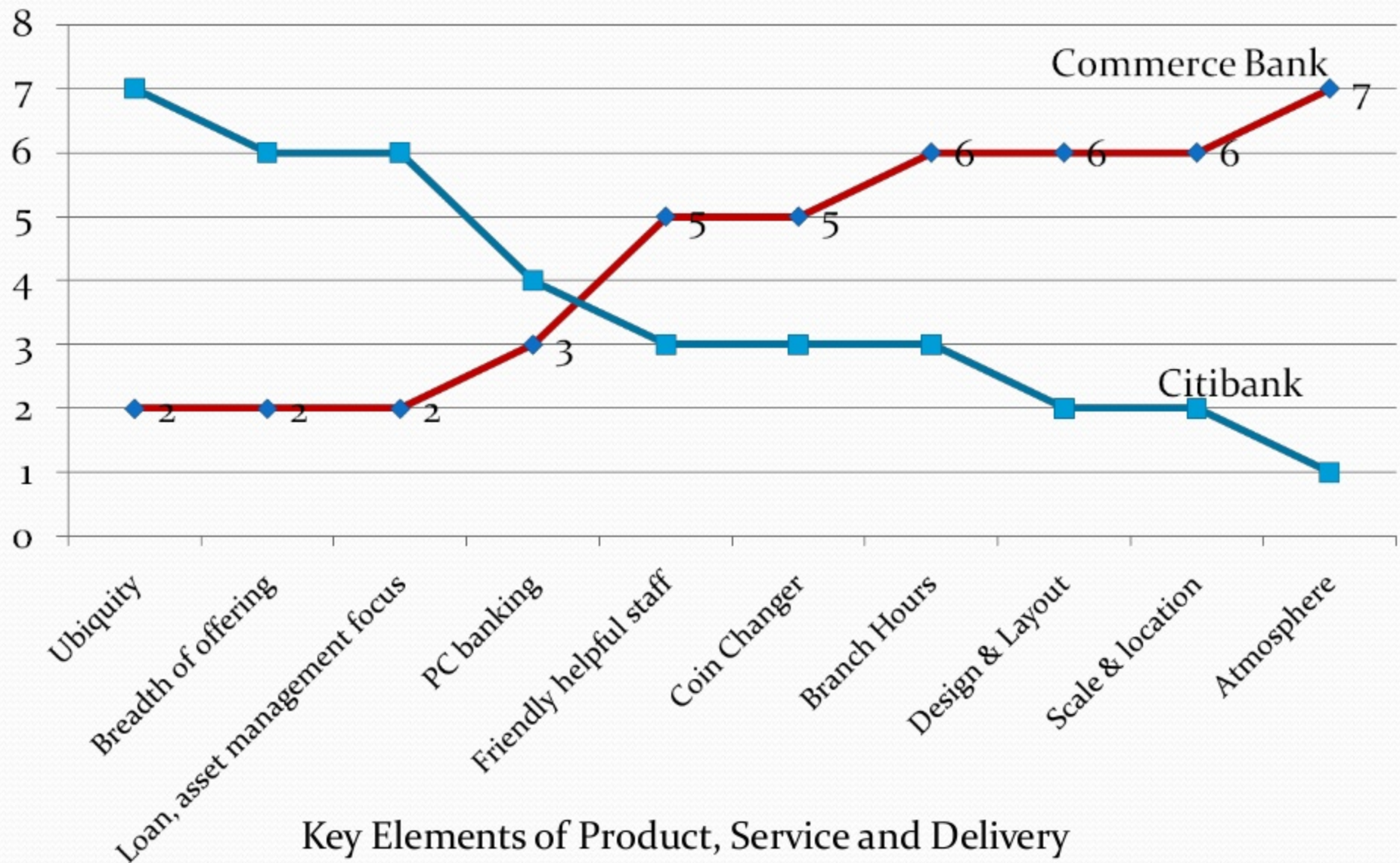
- Highly competitive industry
- Few differentiators
- Low entry barriers
- Downward margin pressures
- Limited opportunity for new customers
- Struggling to compete
- Leadership position stagnant
- Forced into acquisition model to sustain growth expectations.

The Commerce Bank Experience – Blue Ocean Strategy in Financial Services

The Commerce Model

- Growth Retailers Not Bankers
- FANS Not Customers
- Unique Deposit Driven/Retail Focus
- Service Not Rate Drives Growth
- Growth is Essential to Success and Value

How Commerce Bank changed the paradigm



What did Commerce Bank do?

- Moving to a convenience retailer
- Assessing what's really important to customers
 - Convenience (62%)
 - Convenience (29%), Checking account (16%), Personal/Friendly/Nice, Treated well (9%), Good Service (8%)
 - Good Rates/Returns (3%)
- The Philosophy of Commerce Bank is 'dare to be different'
 - Bankers Hours – Open 7 days
 - Need a pen
 - Paint your vans
 - Dogs rule!
 - Coins!

Results are impressive:

- Consistently winning consumer awards
- Annual growth of 19%

Comparing Conventional Thinking with Value Innovation approaches

	<u>Conventional</u>	<u>Value Innovation</u>
Industry Assumption	Industry conditions are given	Industry conditions can be shaped
Strategic Focus	Build competitive advantages to beat the competition	Create a quantum leap in buyer value to dominate the market
Customer	Retain and expand the customer base through further segmentation and customisation. Think in terms of embracing customer differences	Go for the mass of buyers and willingly let some existing customers go. Think in terms of embracing key customer value commonalities.
Assets & Capabilities	Think in terms of a company's existing assets and capabilities. Build on what it has.	Think free from a company's existing assets and capabilities. Ask, what if we start anew?
Product/ Service offerings	Think in terms of products/ services offered by the industry. Seek to maximise the value of these offerings.	Think in terms of buyer's solution even if that transcends the industry. Seek to solve buyer's major bottlenecks/ chief compromises in using the products/services of the industry.

What are the characteristics of Blue and Red Oceans

- ❖ Market space is in existence today
- ❖ Boundaries are defined
- ❖ Competitive rules are known
- ❖ Companies compete fiercely
- ❖ Market space (Ocean) is crowded
- ❖ Market share / profit share
- ❖ Competition is cut-throat
- ❖ Market space (ocean) 'bloody'

- Untapped Markets
- Products / Services not in existence
- Demand is yet to be created
- Non-customers
- Opportunity to earn high profits
- No competition

Value Innovation encourages organisations to seek strategies in 'Blue' rather than 'Red' oceans

RED OCEAN STRATEGY

Compete in existing market space

Beat the competition

Exploit existing demand

Make the value cost trade-off

Align the whole system of a firm's activities with its strategic choice of differentiation

BLUE OCEAN STRATEGY

Create uncontested market space

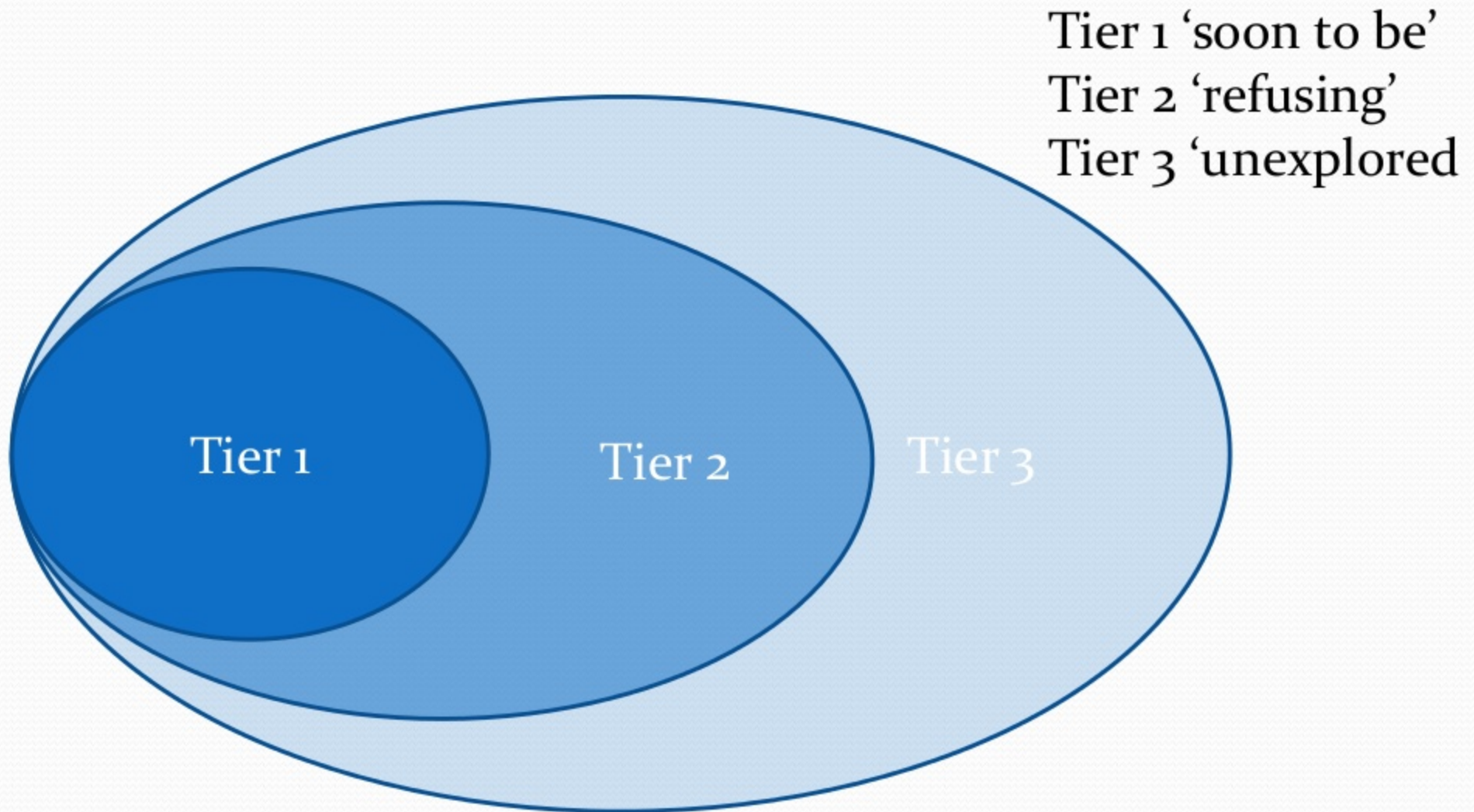
Make the competition irrelevant

Create and capture demand

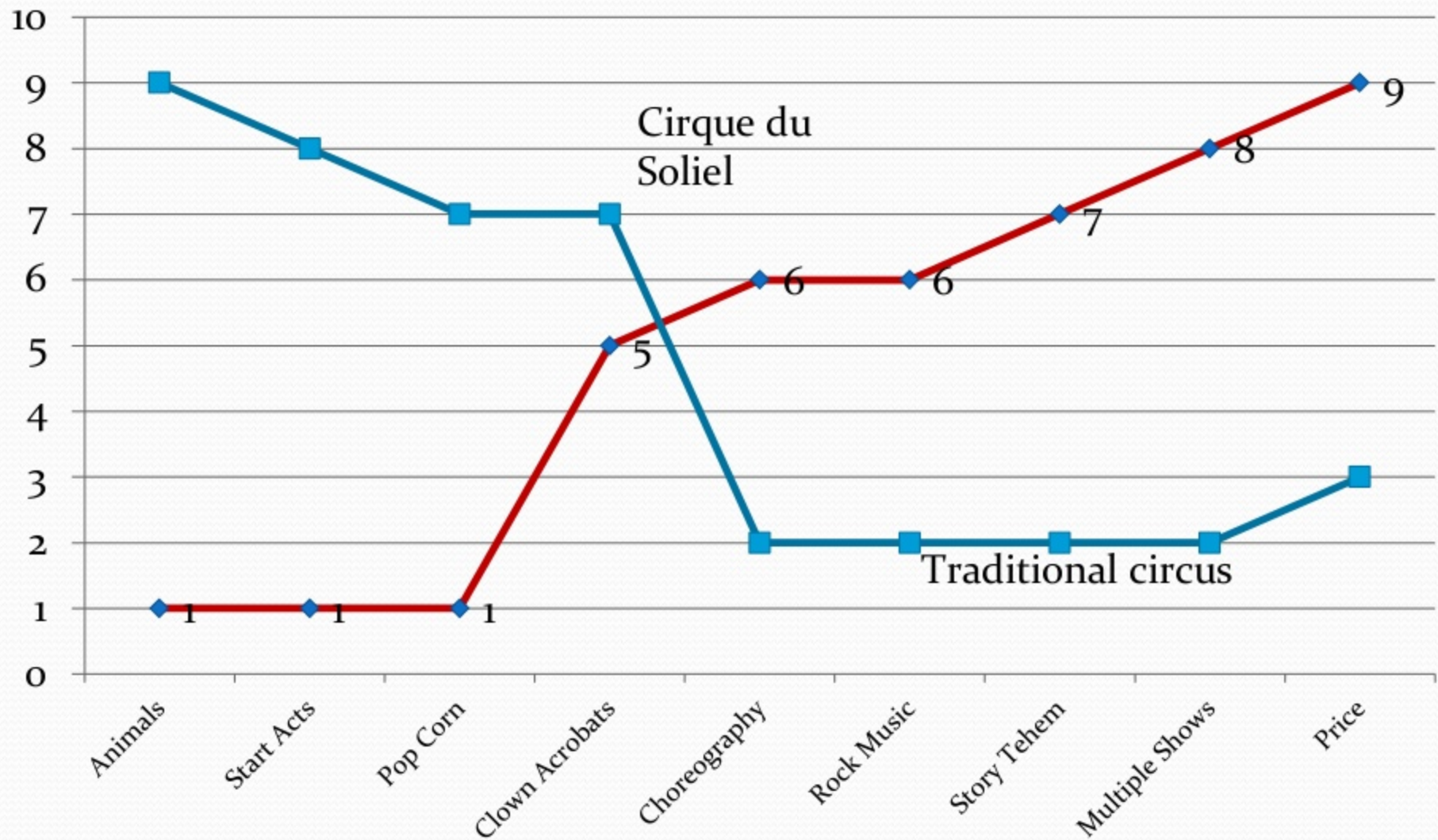
Break the value-cost trade off

Align the whole system of a firm's activities in pursuit of differentiation and low cost.

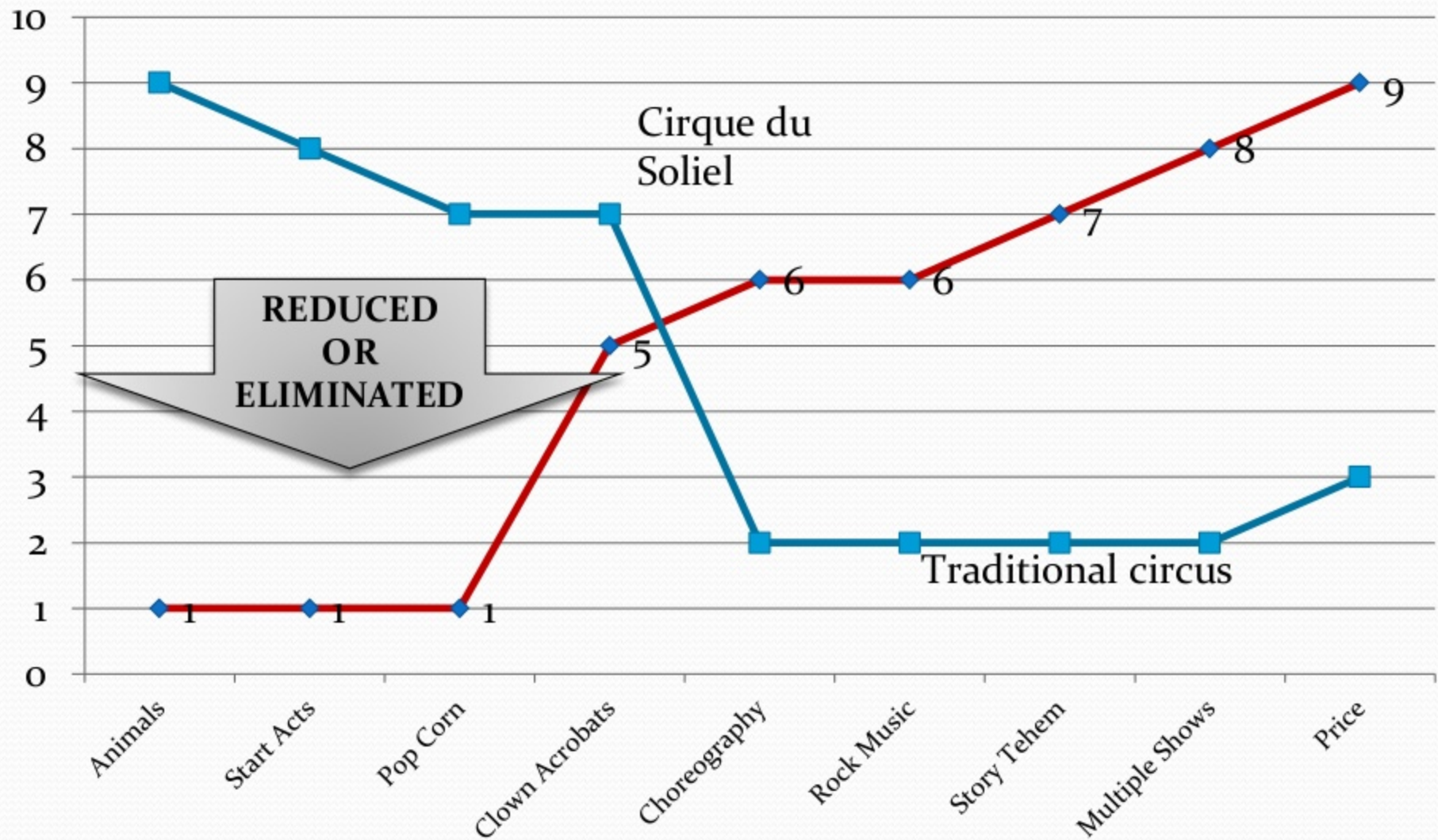
Blue ocean strategy is all about customers and non-customers.



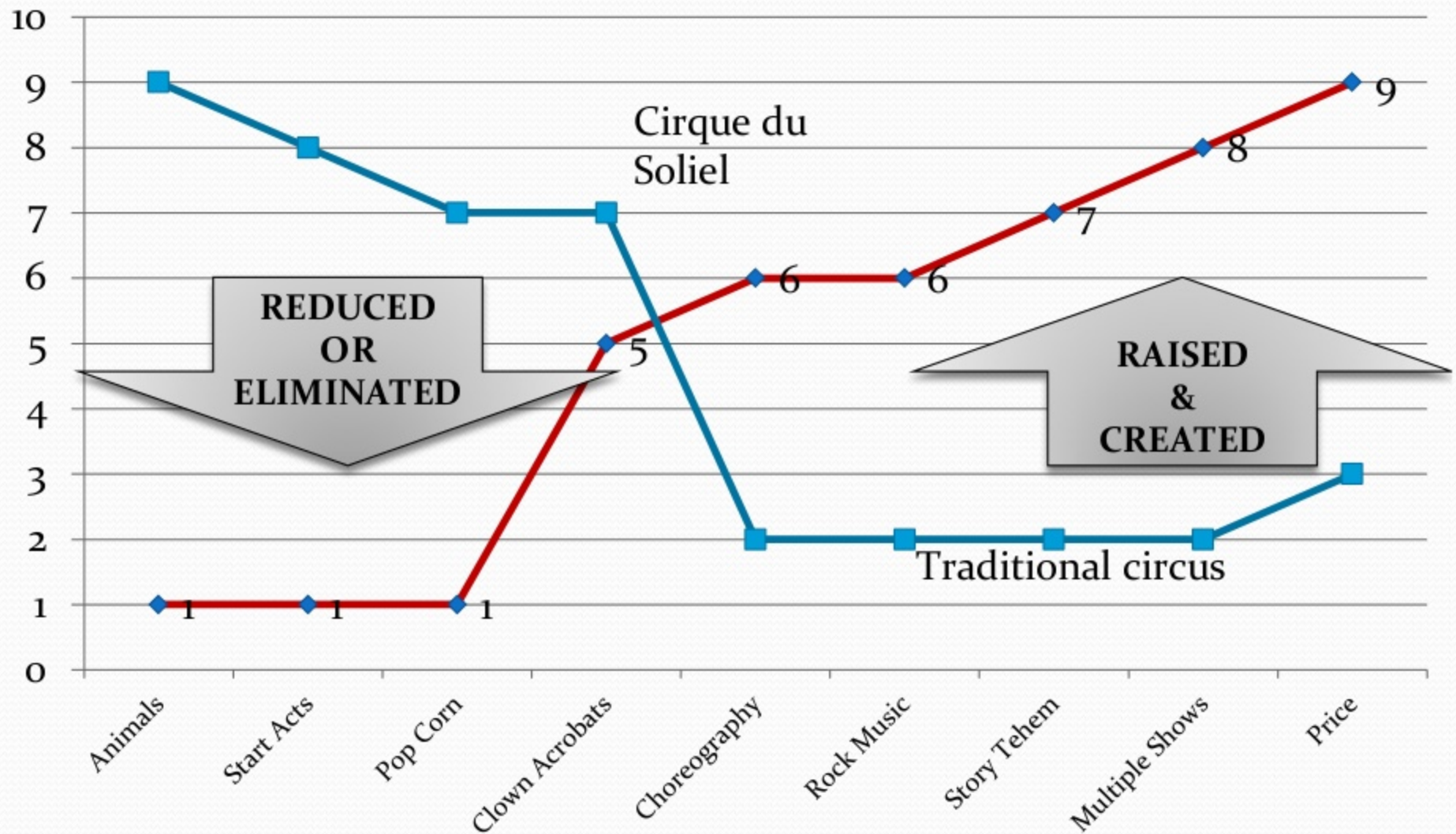
Cirque du Soliel – Revolutionising a dying industry



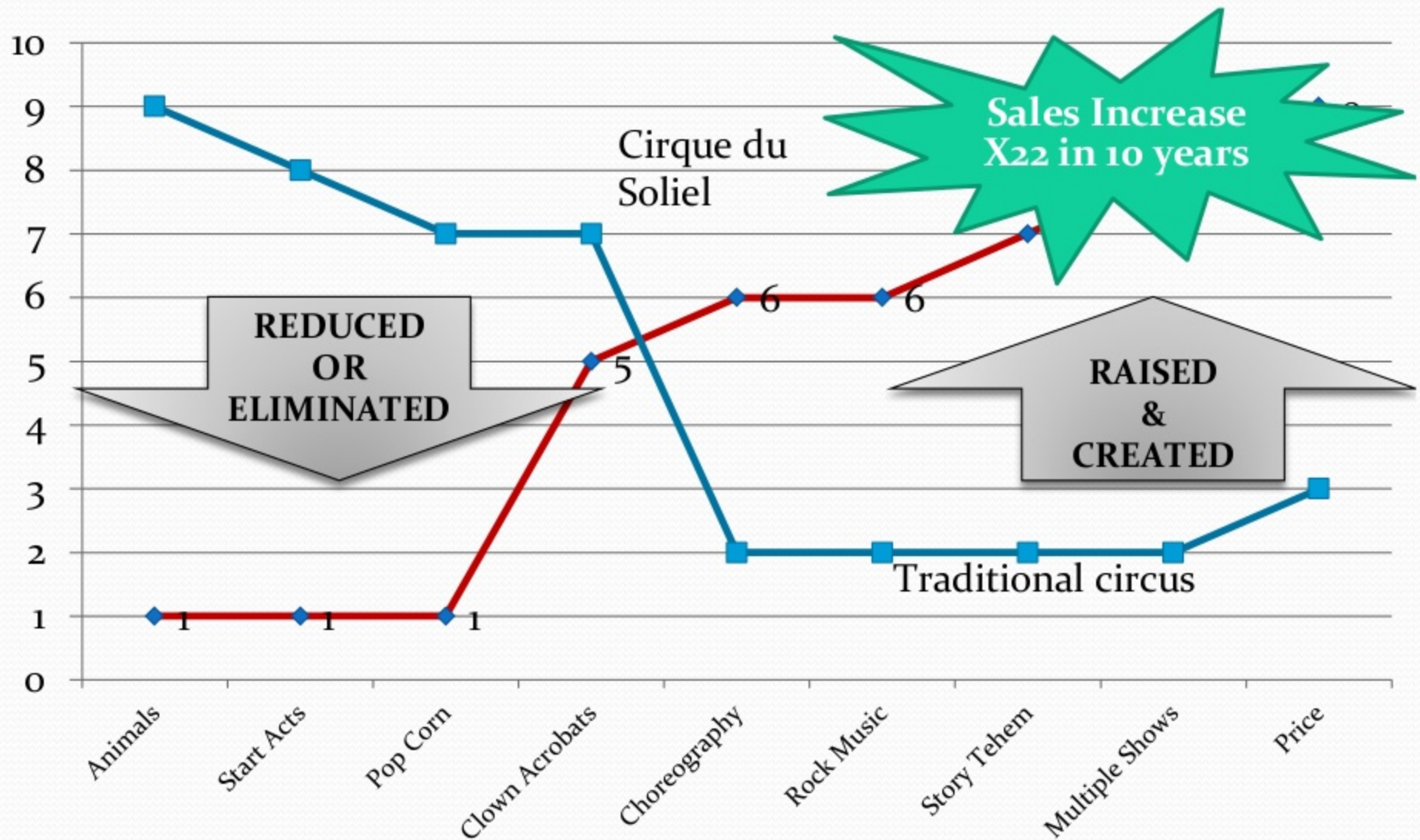
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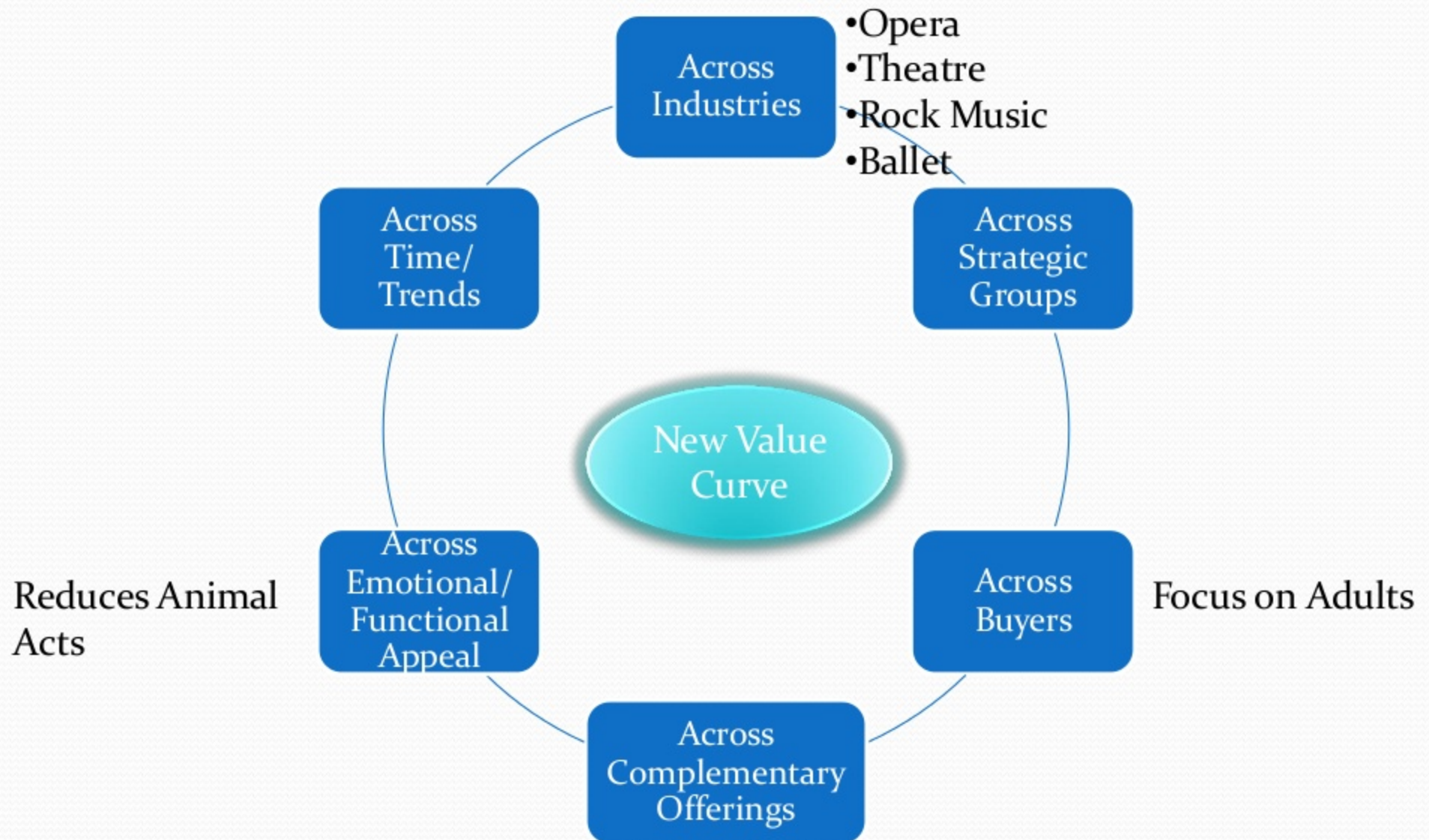
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Understanding where the value innovation took place at Cirque de Soleil



Eliminate-Reduce-Raise-Create Grid: Cirque du Soleil

<u>Eliminate</u>	<u>Raise</u>
Star performers Animal Shows Aisle concession sales Multiples show arenas	Unique venue
<u>Reduce</u>	<u>Creates</u>
Fun and Humor Thrill and danger	Theme Redefined environment Multiple productions Artistic music and dance

Steps in Value Innovation

- Drawing the existing Value Curve
- Creating a new 'Value Curve' ('to-be') that fundamentally differentiates your offering
- In creating our 'to-be' value curves we seek to address four elements – eliminate, reduce, raise, create.
- This allows us to address the leap in value at the same time as reducing the cost structure

PUSHING FOR A QUANTUM LEAP IN BUYER VALUE

WHILE:

**PUSHING FOR A SHARP DROP IN THE INDUSTRY COST
STRUCTURE**

Six Pathways

